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SUBJECT: EU STANCE ON NABUCCO WORRIES ITGI

REF: ROME 1110

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¶1. (SBU) Summary: A representative of the Italy-Turkey-Greece Interconnector (ITGI) pipeline project believes the Commission's public bias towards Nabucco is prejudicing ITGI's ability to secure a gas deal. Commission officials told him that their support for Nabucco is driven by USG pressure. In a separate conversation, a Nabucco representative said Russia may be steering Azerbaijan towards ITGI in order to thwart Nabucco. End summary.

¶2. (SBU) An employee of Edison SpA, the Italian partner in ITGI, expressed concern to econoff about EU partiality towards Nabucco. He claimed that during the BTC pipeline 10th anniversary celebrations in Baku last month, Commissioner Piebalgs declared that &Nabucco is close to my heart.,8 He said the appointment of former Piebalgs staffer Roland Kobia as the next Commission ambassador to Baku reaffirms the Commission's commitment to Nabucco. He cited the European Parliament's (EP) September 17 resolution on energy security, which specifically references Nabucco as an &EU priority,8 as another example. Finally, he said Commission officials claimed that they are under pressure from the USG to support Nabucco. (Note: The EP's energy security resolution stresses &the importance of a general regime to govern the development of the (Southern) (C)orridor, with a view to linking the EU to new sources of gas from the Middle East and the Caspian region independently of any one company or pipeline.8 End note.)

¶3. (SBU) He asked what Edison could do to promote ITGI as a European project. He said ITGI, which only needs an 800km interconnector between Greece and Italy, is poised to deliver Azeri gas to Europe, much quicker than Nabucco. The ITGI consortium is prepared to build an interconnector to Bulgaria, which is totally dependant on Russian shipments via Ukraine. Edison could also ship excess gas to the Baumgarten gas hub in Austria for sale in other European markets.

¶4. (SBU) He said Edison seriously contemplated an offer to join the Nabucco consortium, but declined for two reasons. First, it did not want to alienate Greece. The GoI told Edison that abandonment of the ITGI project would affect official relations, and further, Edison does not want to jeopardize its commercial ties with Greece. Second, he said ITGI would deliver up to 6 bcm to Italy, whereas Nabucco would only afford Edison the right to bid on up to 2.5 bcm. He also acknowledged that if it joined the Nabucco consortium, Edison would have to import gas from Baumgarten

through pipelines operated by Italian competitor Eni.

¶5. (SBU) Edison considers U.S. support crucial to securing a gas deal with Azerbaijan. Edison CEO Umberto Quadrino plans to visit Washington on November 9 to press its case. (Note: No mention was made of Edison's Dayyer exploration contract in Iran per reftel. End note.)

¶6. (SBU) In a separate conversation, a representative of RWE, a partner in the Nabucco consortium, raised his concern that Azeri President Aliyev is under pressure from Russia to reach a deal with ITGI for Shah Deniz II gas. He said Russia seeks to deny Nabucco its primary source for phase I, which would effectively kill Nabucco. Russia may be willing to forego the Azeri gas and accept 6 bcm to Italy in order to prevent 31 bcm from flowing to central and eastern Europe. This would also eliminate western competition in Turkmenistan.

¶7. (SBU) Comment: Edison continues to tout ITGI is as the most commercially viable and expeditious project to import Azeri gas via the Southern Corridor ) from its perspective a clear advantage for Europe. It is trying to expand its support base, but it may not fully appreciate that it is viewed outside of Italy as an Italian project in contrast to Nabucco, which is considered a political priority by the Commission, the EP and several member states.

Murray

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